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A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Survey....Forecasts

Volume XIX

Number 23

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

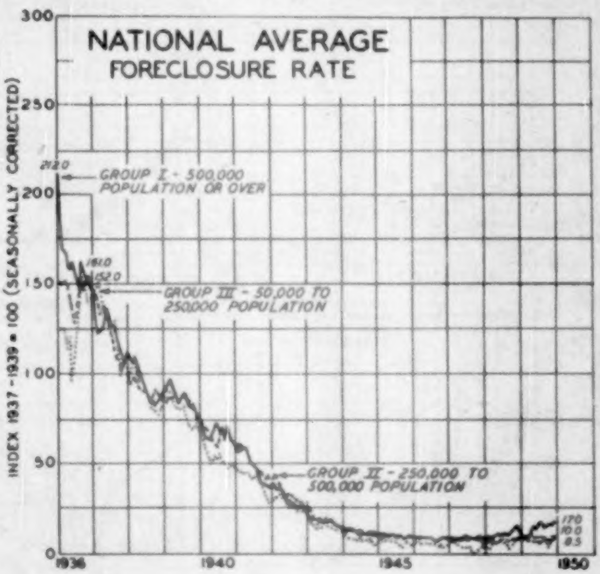
FORECLOSURE FLUCTUATIONS IN 84 CITIES

THE series of charts on pages 202-207 and 210 shows the foreclosure rate in 84 cities. In making this study we have taken the actual number of foreclosures in each city, corrected these figures to eliminate seasonal variations, and put the corrected figures on an index basis. For this reason the charts show the fluctuations of the foreclosure rate rather than the number of foreclosures, and the cities should not be compared with each other except on the basis of trend.

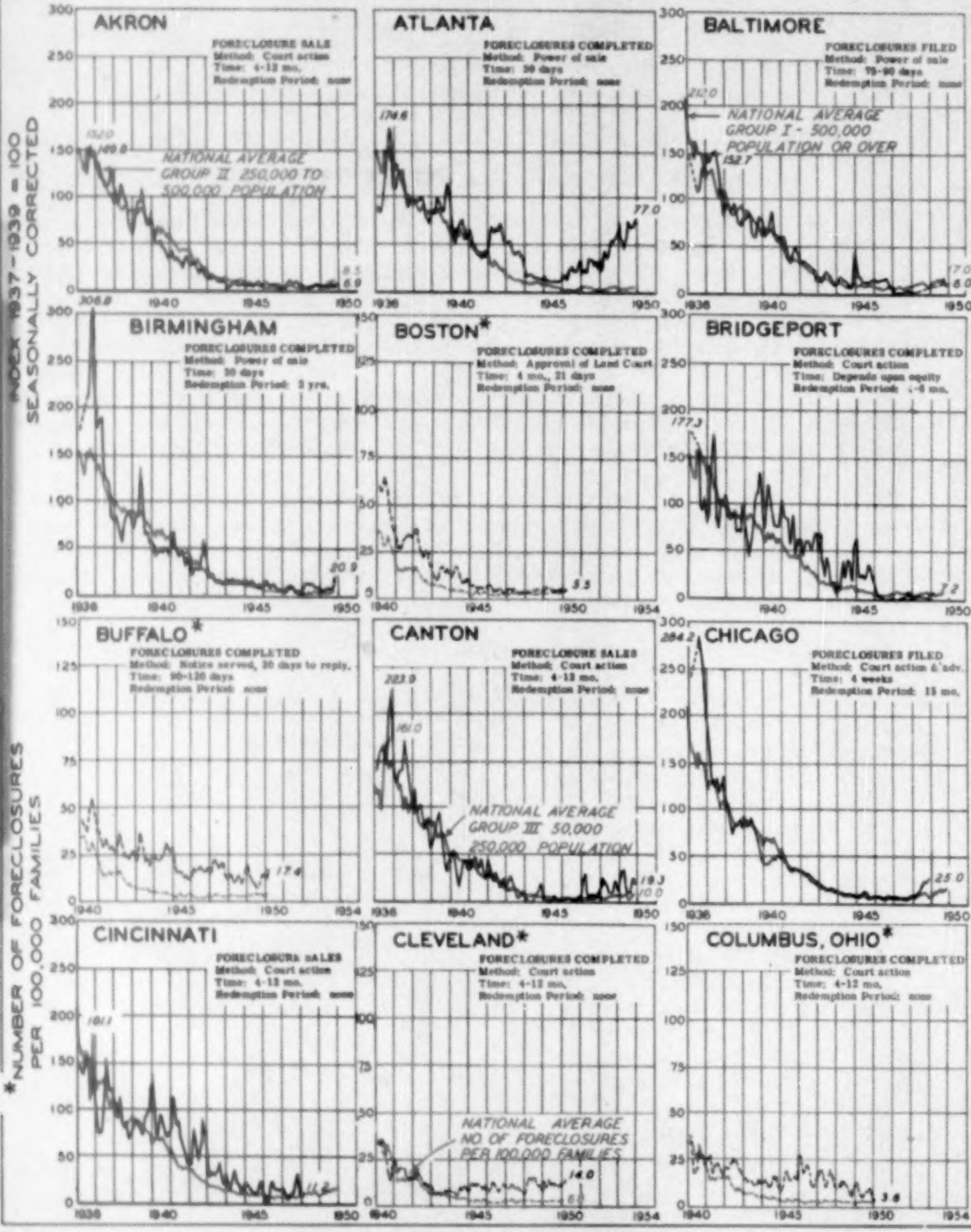
The original figures include all foreclosures of the county in which the cities are located. Therefore, most of the cities have a few farm foreclosures included in their totals. Farm foreclosures, however, contribute little to this study.

The length of time necessary to foreclose, the redemption period, and the foreclosure costs are so variable that on most of the charts we have shown the range of time or cost into which fall most of the foreclosures in that city. We do this because there is not room on the charts to show the various legal clauses dealing with the time that must elapse before foreclosure can be completed.

We have segregated the cities into three population groups - 500,000 and over, 250,000 to 500,000 and 250,000 and less - and have taken an average for each group. The individual charts, therefore, show foreclosures in each city (blue), and the average for cities of the same size (red). The national average chart shows the three groups on one chart. Note how closely foreclosures in the three groups follow each other. This shows that the size of the city has little effect on the foreclosure rate. During 1949 foreclosures continued to move upward slowly, but we expect that 1950 will see an acceleration in the rate. Possibly by 1951 this acceleration will become pronounced.



FLUCTUATIONS IN THE FORECLOSURE RATE BY PRINCIPAL CITIES



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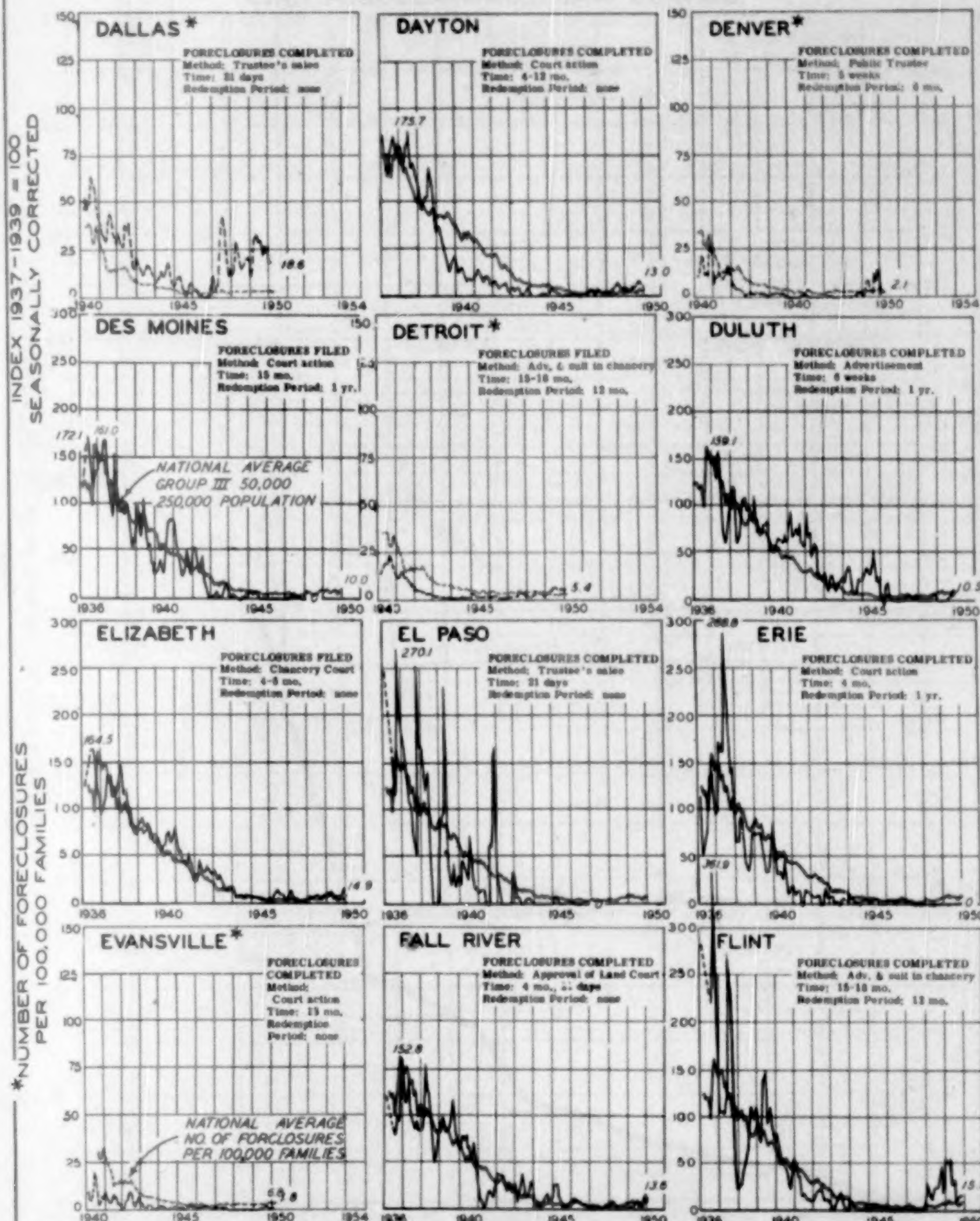

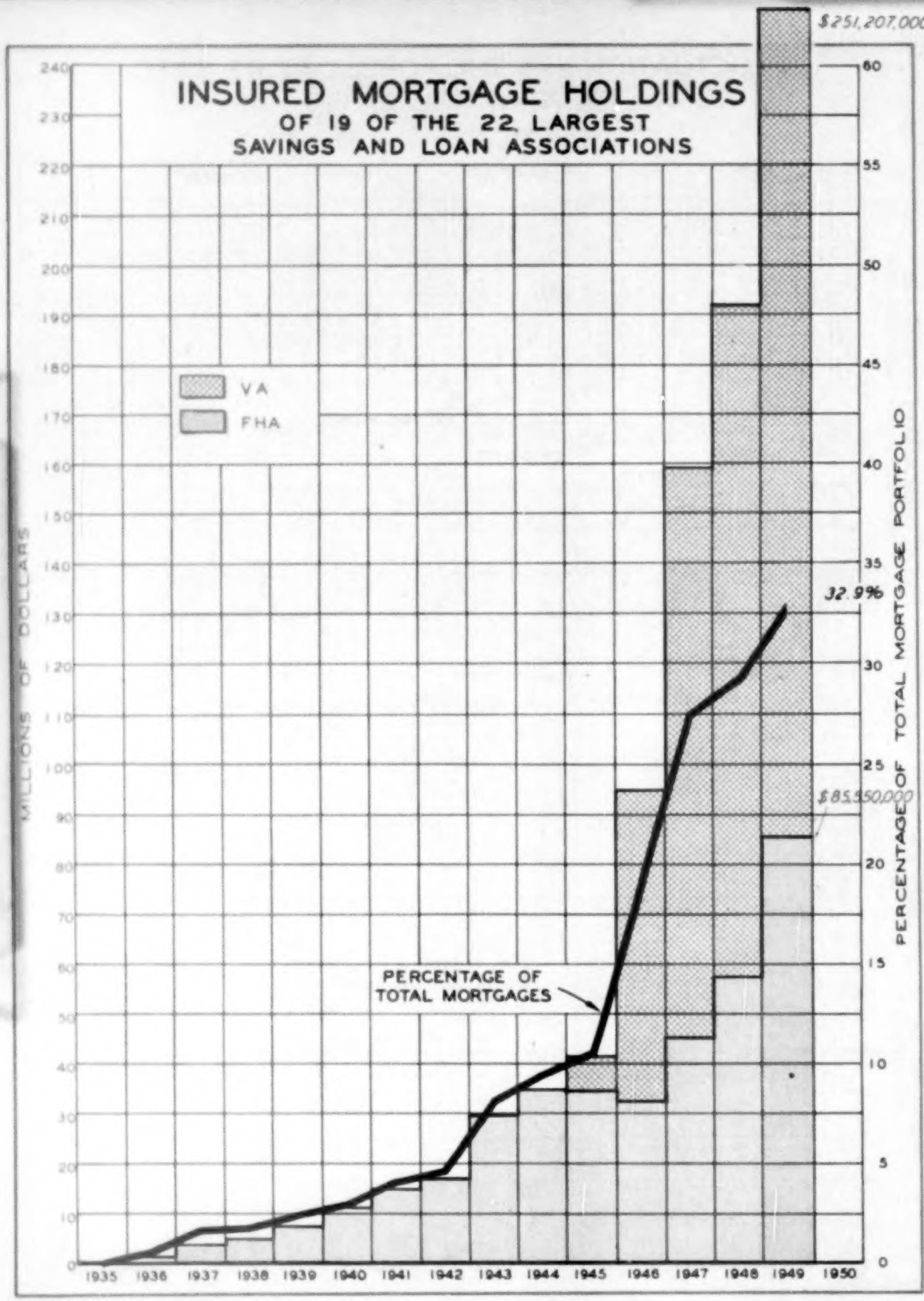
INSURED MORTGAGE HOLDINGS
OF 19 OF THE 22 LARGEST
SAVINGS AND LOAN ASSOCIATIONS
VA
FHA
MILLIONS OF DOLLARS
PERCENTAGE OF TOTAL MORTGAGE PORTFOLIO
PERCENTAGE OF
TOTAL MORTGAGES
$251,207,000
32.9%
$85,550,000
0
10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
180
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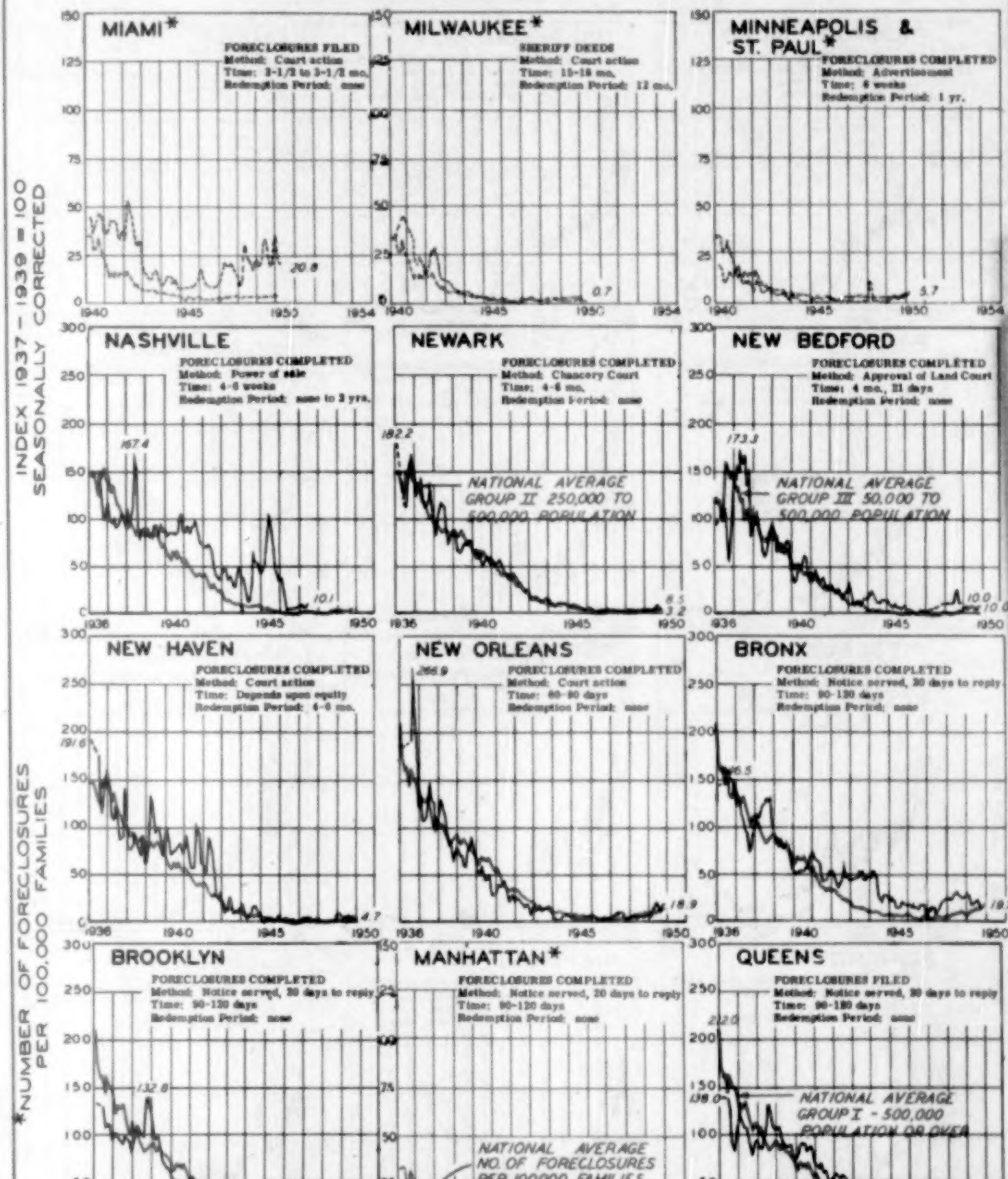

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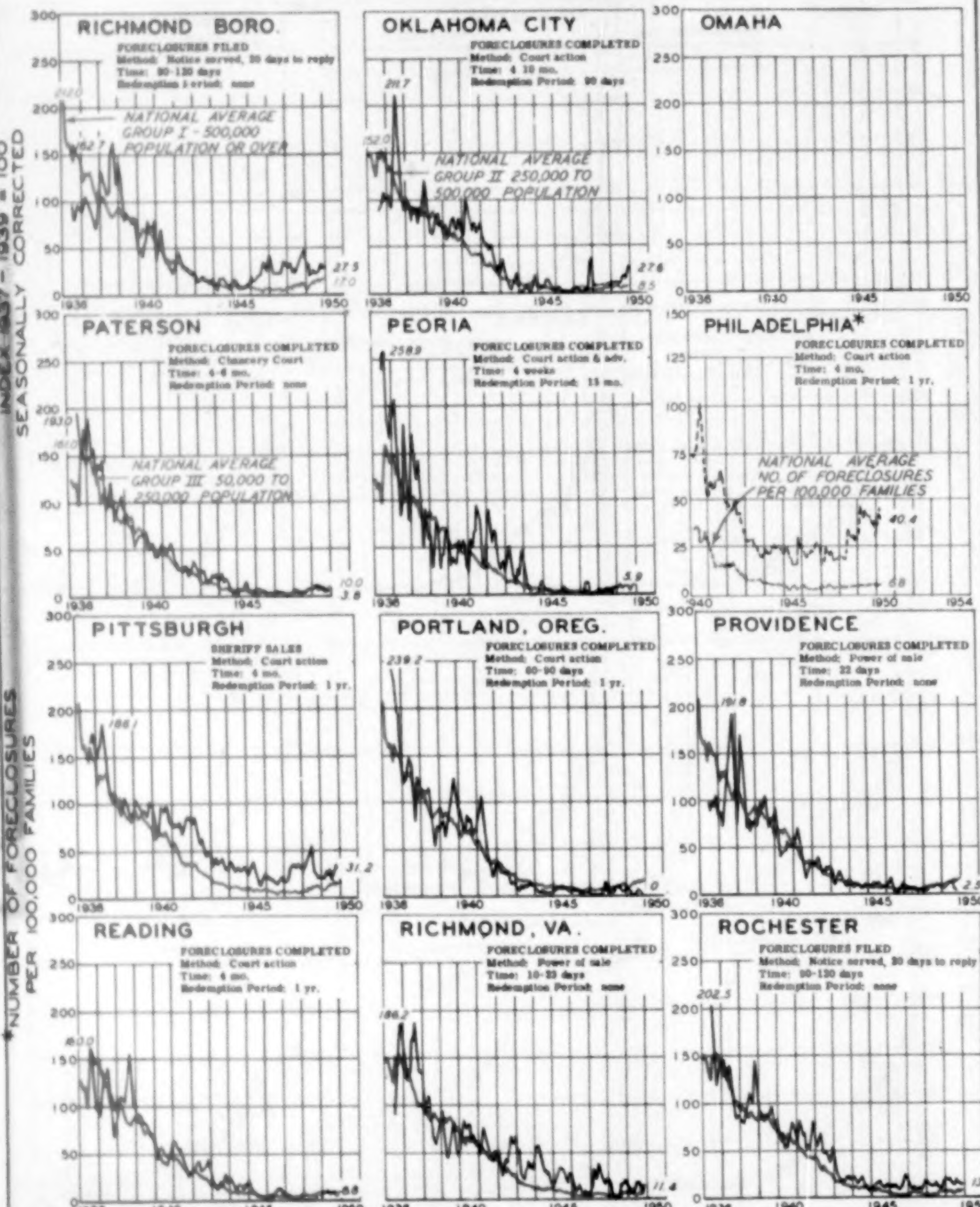

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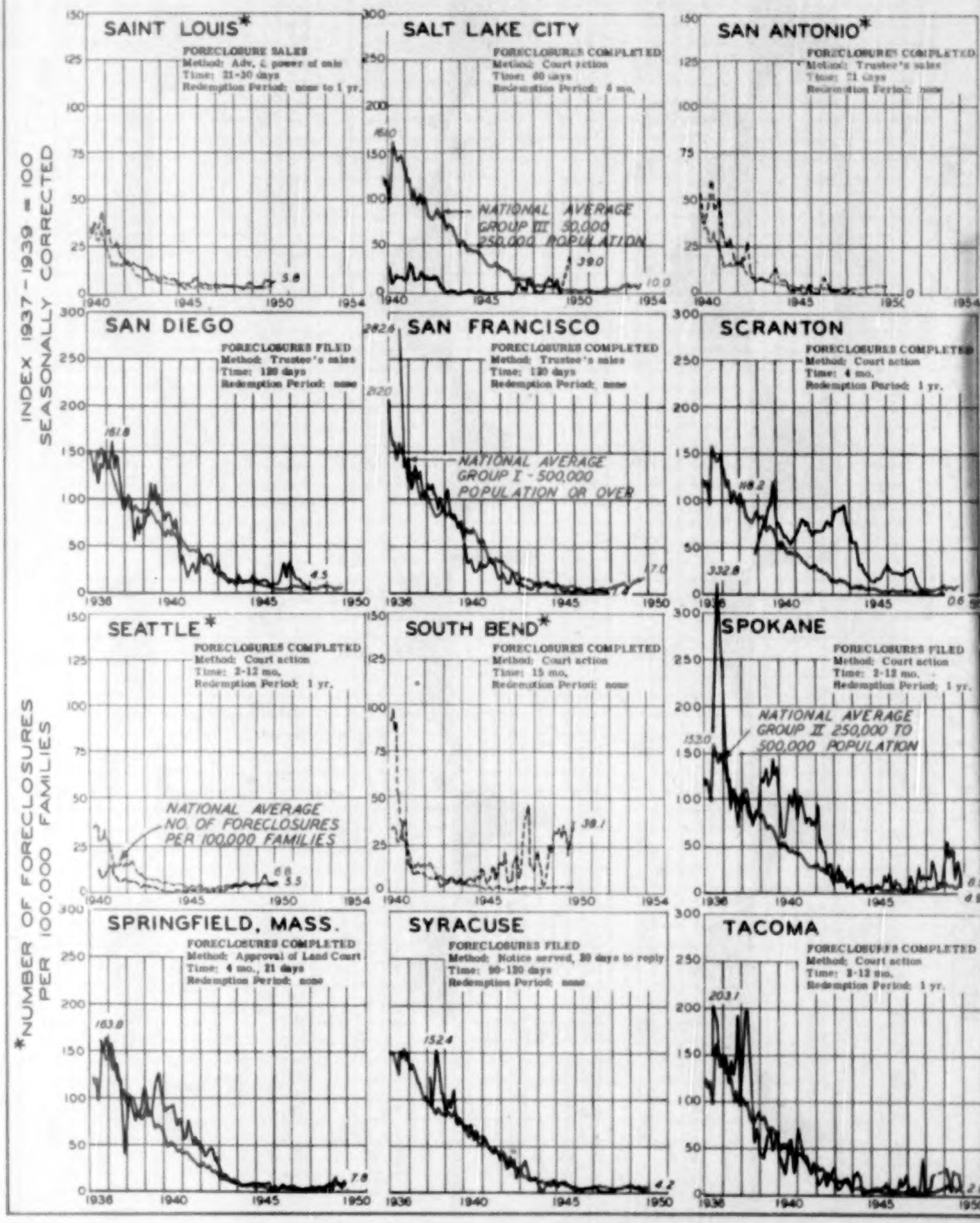
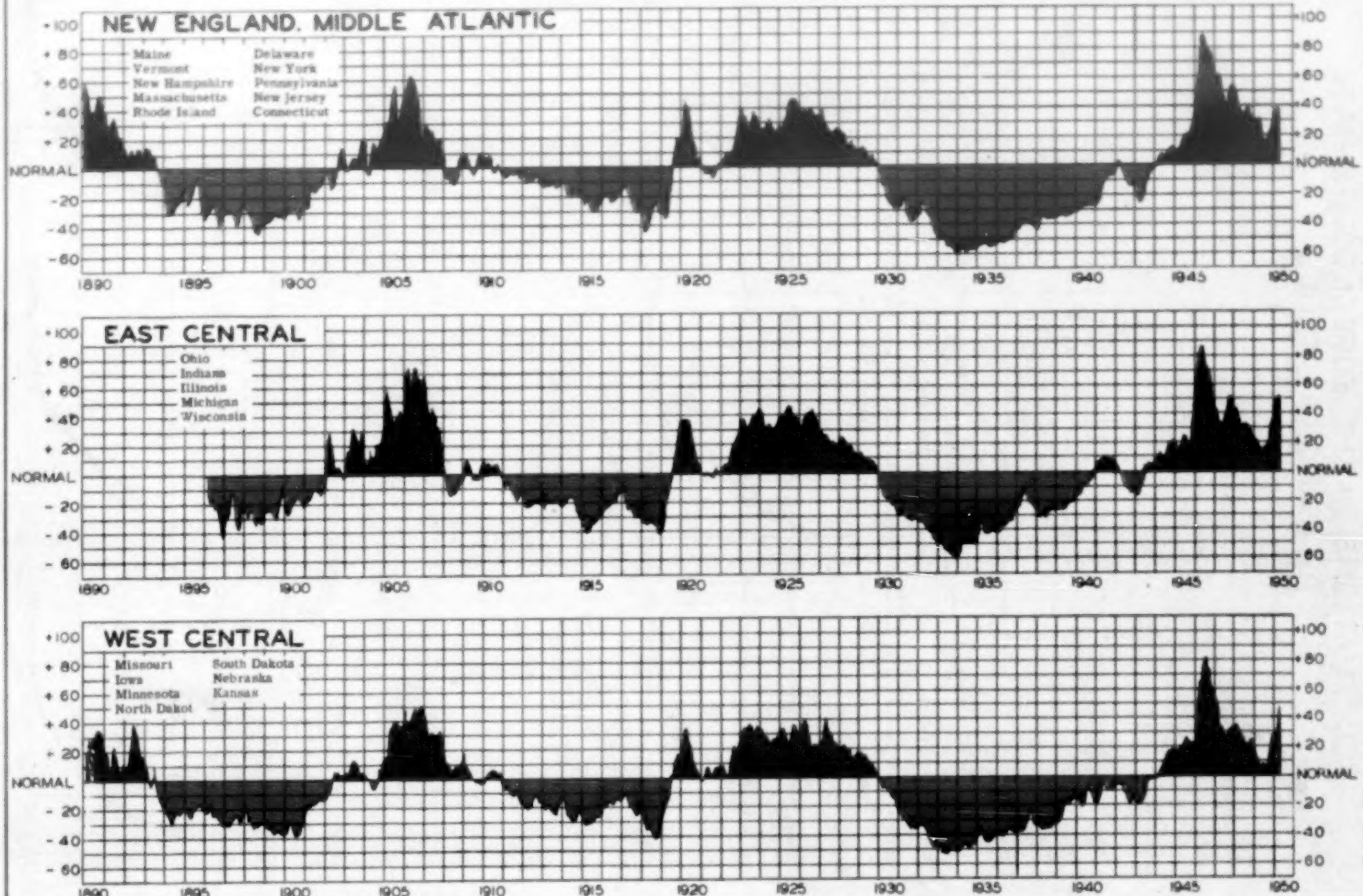


REGIONAL PATTERNS OF REAL ESTATE ACTIVITY



REGIONAL PATTERNS OF REAL ESTATE ACTIVITY

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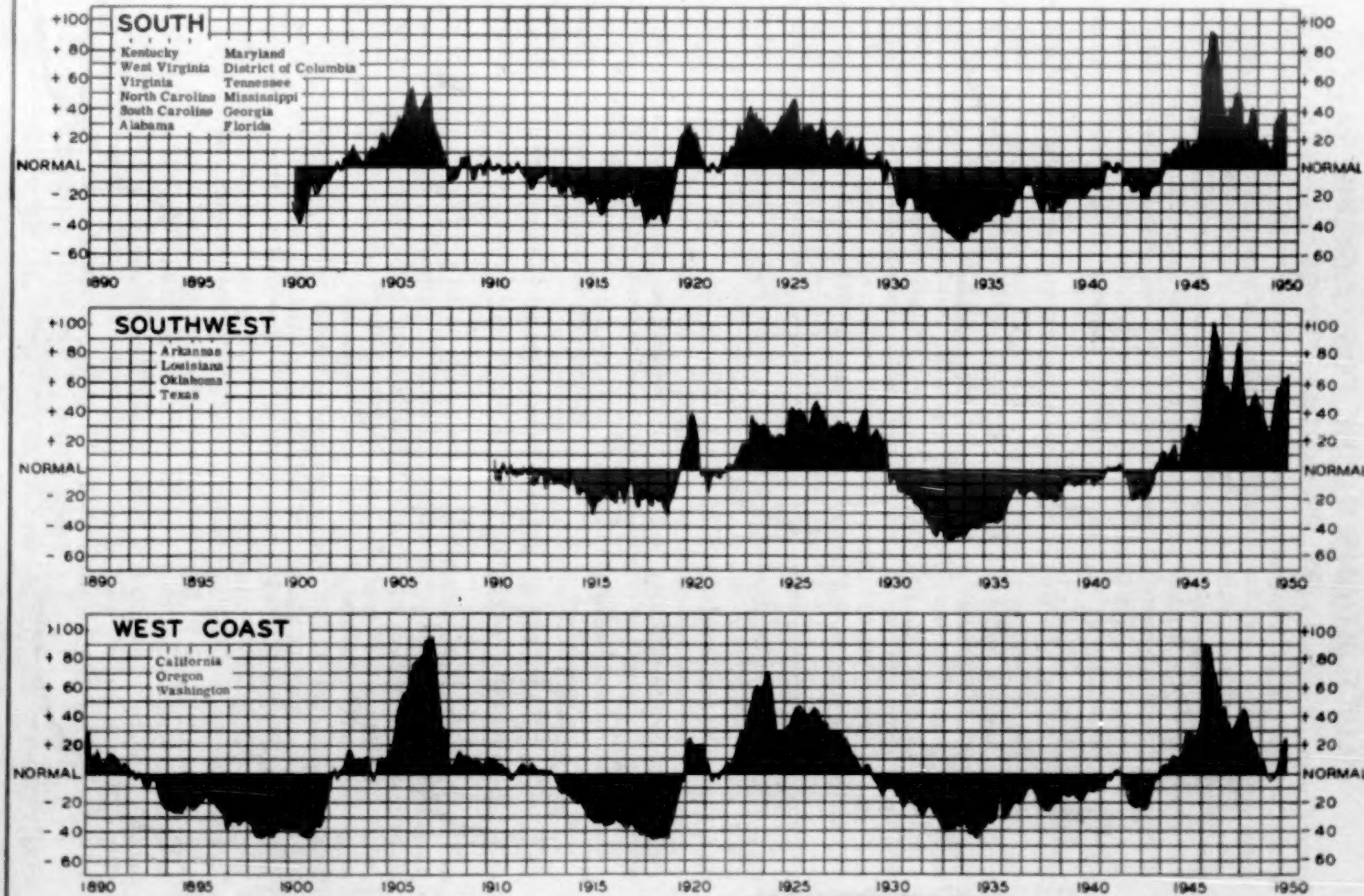

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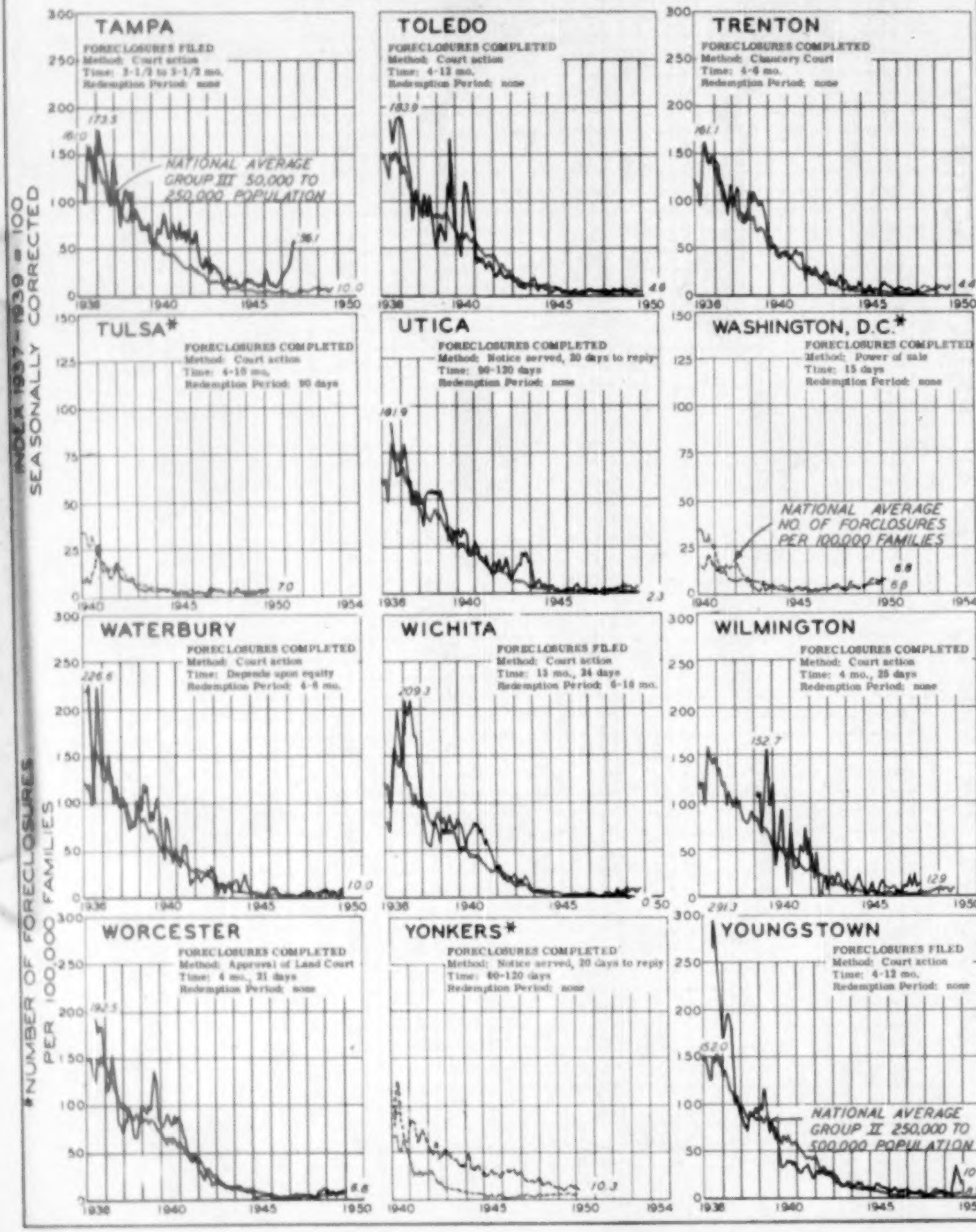


BUILDING COSTS BEGIN TO CLIMB

FOR the last few months building material prices and construction wages have been moving up. Until recently a good many builders, riding the biggest housing boom in history, have been absorbing these increases. This spring, however, with the boom resounding even louder from its sounding board of easy credit, home prices started creeping higher. In some areas "creeping" seems to be an understatement. For example, the Bureau of Labor Statistics in a recent series reports a 13% increase during the first two months of 1950 over the first two months of 1949 in the cost of single-family homes in Boston. In Atlanta, the increase during the same period was 9%; in Cleveland and Seattle, 7%.

On the other hand, the San Francisco-Oakland area reports that the cost of single-family homes there during the first two months of 1950 is 12% under the cost for the same period in 1949. The difficulty in reaching a sound conclusion in this instance lies in the fact that the size and type of the average single-family home changes from year to year. Actually construction costs seem to have gone up between 5 and 10%, and the builder absorbed the first 5% rise while the customer is most likely going to absorb the second 5%. It's not that pat, of course, and these figures can hardly be applied locally except by accident. There are no actual data on how much of the rise builders are absorbing, but (as credit gets easier) the amount they will have to absorb will certainly diminish.

The chart on page 215 shows the principal components of building costs from 1795 through the first part of 1950. Building materials that cost $3,000 today would have cost only $850 in 1913, and labor that costs $3,000 today would have cost only $570 in 1913. This is hardly a fair comparison because building materials have undergone many improvements and alterations in the last 35 years. So, too, have the techniques and methods used by construction labor. In the final analysis the house of today can be bought by the average wage earner with fewer "weeks' work" than could a similar cheaper house in 1913.

In addition to showing the steady upward trend in the price of these principal components, the more recent rises in lumber prices and wages are also apparent.

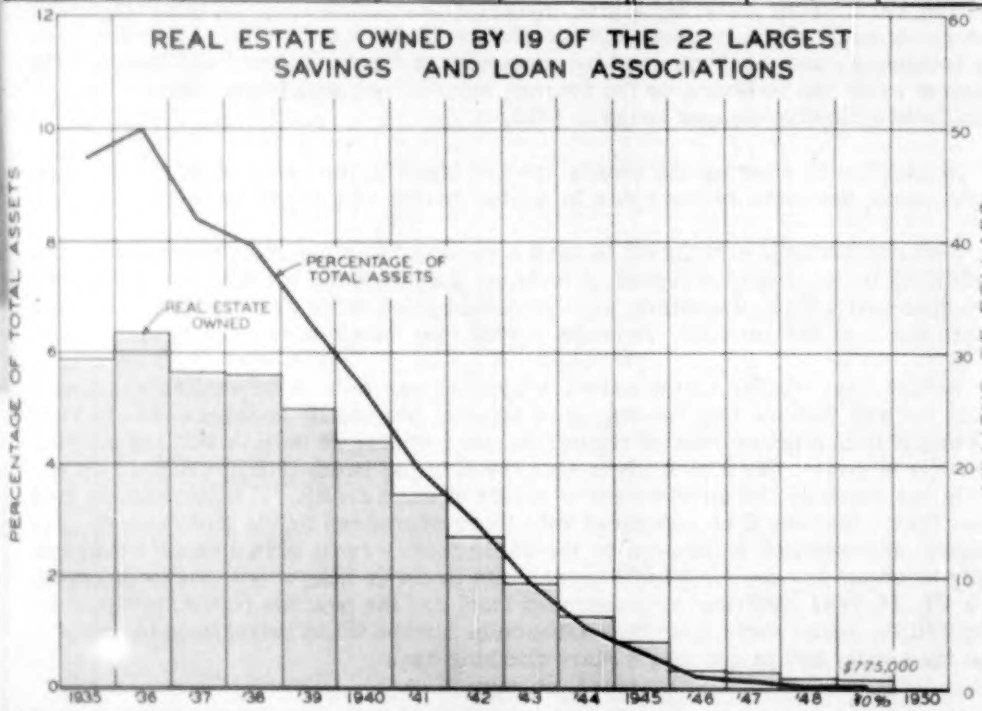
With construction activity off to such a record-smashing start (even before the traditional building season began), it looks as if demand for building materials will stay abnormally high. Therefore, any worthwhile price drops can hardly be expected within the next few months. Perhaps prices may continue to edge up still more.

Before long figures on the nation's housing census will be available and as a guess we will venture that the supply of housing per family is larger than in 1940 and that it is in a better state of repair. In other words, we believe that the housing shortage is over. We also believe that the housing boom is being hopped up entirely too much by the government's policy of easy credit. It is not easy to find other terms that could be compared with those sponsored by the government. But suppose automobiles were sold on the same loose credit arrangements that now apply to small homes. A $2,000 automobile could be bought with no money down on a 4%, 10-year government-guaranteed loan, and the monthly payments would be only $20.25. Under these conditions automobile demand would increase more rapidly than the supply and prices would start climbing again.

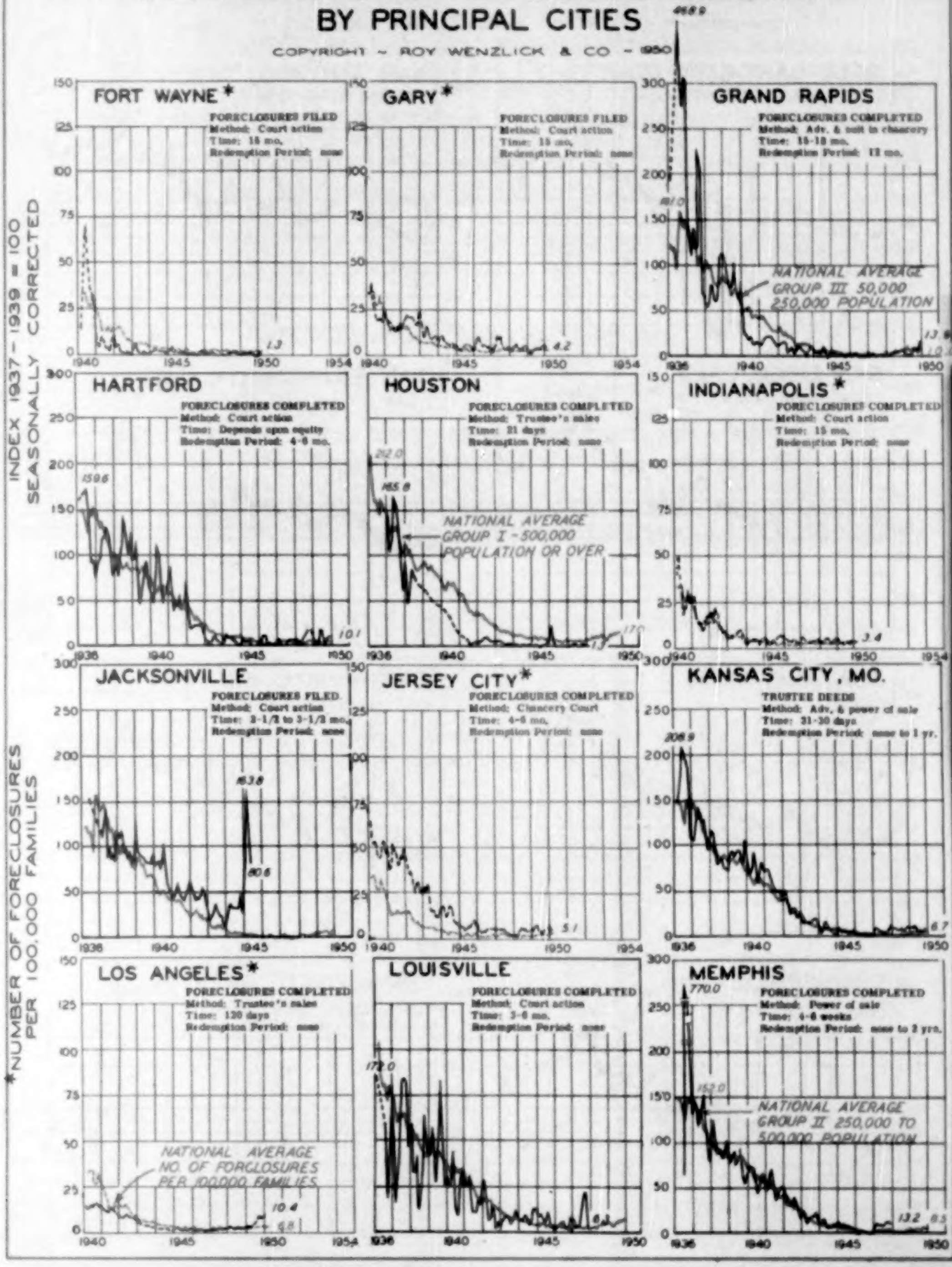
(cont. on page 215)

ASSETS OF 19 OF THE 22 LARGEST SAVINGS AND LOAN ASSOCIATIONS

Year	Total Assets 000's	R. E. Owned 000's	R. E. Owned as % of Assets	Mortgage Portfolio 000's	Insured Mortgages FHA 000's	Insured Mortgages VA 000's	Insured Mortgages as % of Mortgage Portfolio
1935	$308,769	$29,361	9.51%	$225,703	$ 142	$ --	0.06%
1936	319,752	31,628	9.89	238,950	1,332	--	0.56
1937	335,702	28,145	8.38	256,837	3,918	--	1.53
1938	352,035	27,914	7.93	270,107	4,859	--	1.80
1939	378,736	24,863	6.56	294,664	7,212	--	2.45
1940	413,423	22,027	5.33	330,802	10,124	--	3.06
1941	440,932	17,267	3.92	363,280	14,826	--	4.08
1942	454,256	13,580	2.99	363,391	17,099	--	4.71
1943	506,930	9,413	1.86	362,423	29,684	--	8.19
1944	592,344	6,261	1.06	367,800	34,782	--	9.46
1945	618,197	4,241	0.69	396,644	34,671	6,784	10.45
1946	759,941	1,700	0.22	486,819	32,317	62,646	19.51
1947	830,979	1,469	0.18	579,017	45,252	114,124	27.53
1948	885,968	874	0.10	653,243	57,322	134,826	29.41
1949	999,322	775	0.10	763,274	85,550	165,657	32.90



FLUCTUATIONS IN THE FORECLOSURE RATE BY PRINCIPAL CITIES



REAL ESTATE ACTIVITY IN PRINCIPAL CITIES

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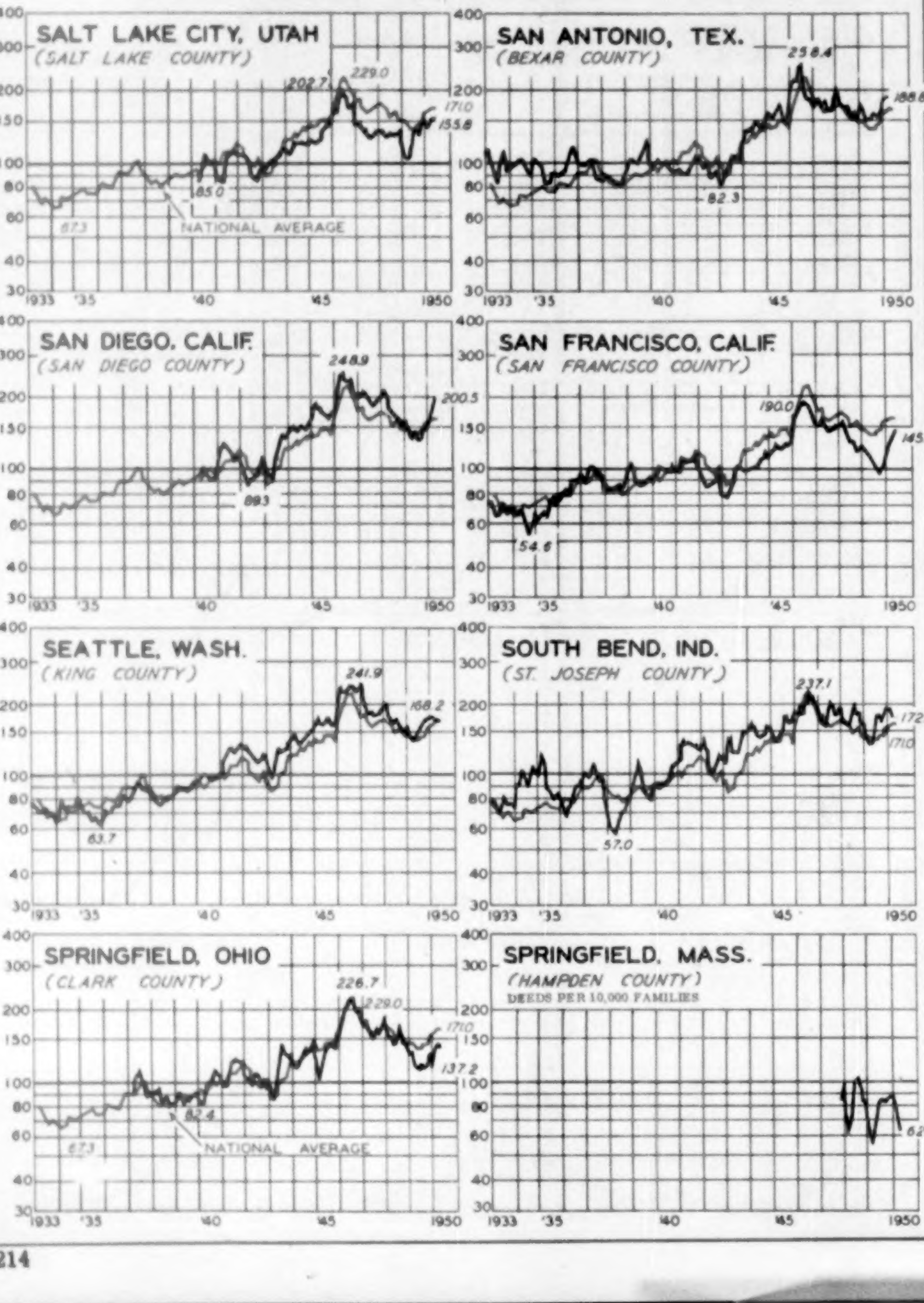


REAL ESTATE HOLDINGS OF SAVINGS AND LOAN ASSOCIATIONS

ON pages 212 and 213 are two charts showing the realestate holdings and insured mortgage holdings of 19 of the 22 largest savings and loan associations. This study first appeared in the Real Estate Analyst of April 1949. The dollar value of real estate owned by these 19 savings and loan associations has been dropping steadily ever since 1936, and at the close of 1949 stood at only $775,000. The chart and table on page 212 show this as one-tenth of 1% of total assets. Actually this percentage is slightly less than that.

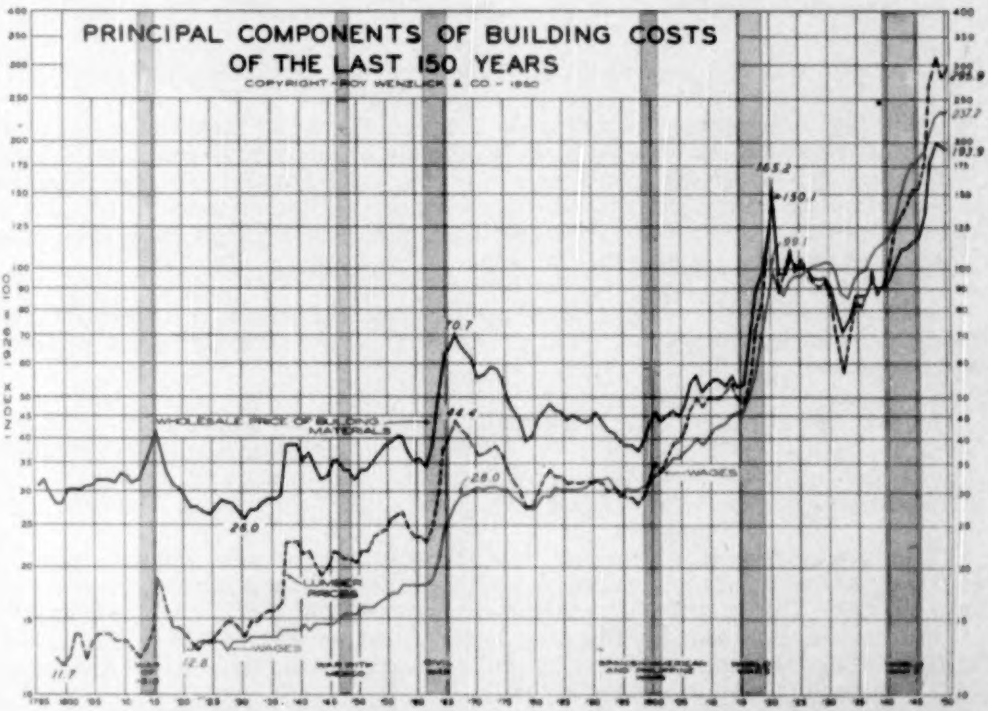
FHA mortgages held by savings and loan associations increased $28.2 million

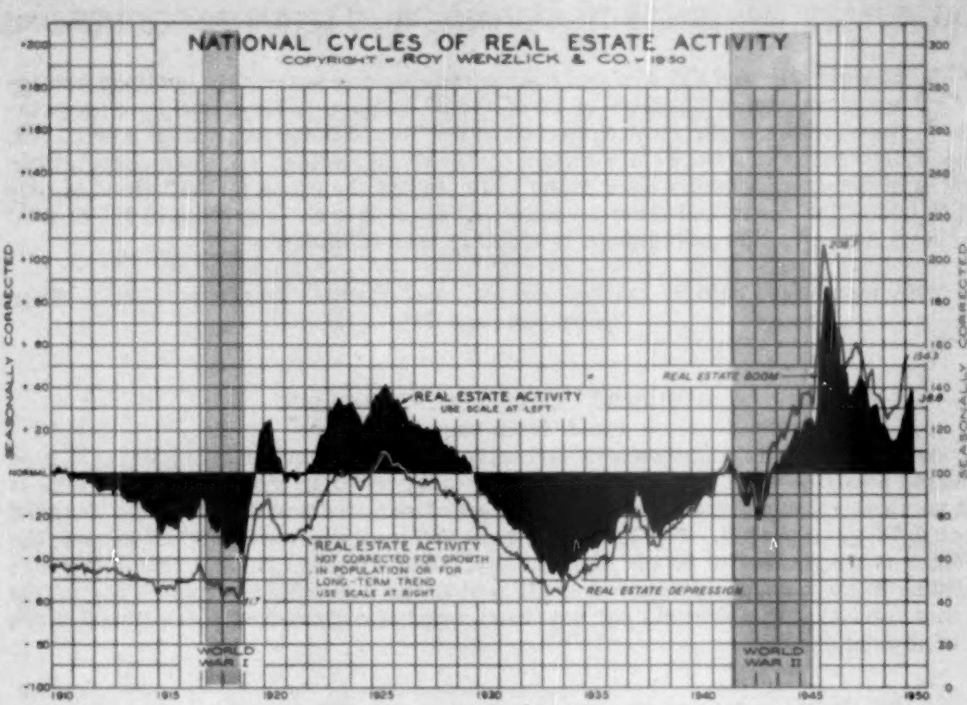
(cont. on page 216)

BUILDING COSTS BEGIN TO CLIMB

(cont. from page 211)

Any useful article can have a virtually unlimited market providing it is sold cheaply enough. That is what is happening today in home buying. A price rise is not particularly significant if no down payment is required and the purchase financed over a 30-year period. The lower the rate and the longer the pay-off period, the greater is the number of people who will buy. Such a policy can only result in overbuilding to the eventual detriment of all residential real estate values. The extent of this detriment will depend upon how much overbuilding is done. At present there is no sign of a letup.





REAL ESTATE HOLDINGS OF SAVINGS AND LOAN ASSOCIATIONS

(cont. from page 215)

over the 1948 level, while VA mortgages increased $30.8 million. However, 1949 marked the second consecutive year where the percentage of increase in FHA loans made by savings and loan associations exceeded the percentage of increase in VA loans made by savings and loan associations. The increase in FHA loans in 1949 was 49%, while VA loans increased only 23%. In 1948 FHA loans increased 26% and VA loans increased 18%.

As is the case in the study on insurance companies (Real Estate Analyst, March 1950), it should be remembered that the charts and table are expressed in terms of dollar value.

Some rather drastic changes have taken place within the portfolios of these associations since 1940. In that year the mortgage portfolio amounted to $330.8 million, with a fraction over 3% being insured loans. Quite naturally, during the war the portfolio grew very slowly and from 1942 to 1943 even diminished slightly.

The high mortgage activity and inflation following the war, however, quickly built the total mortgage amount up to $763.2 million, an increase of 93% over the 1945 amount. The inflation of construction costs was no doubt more responsible for this buildup than was any increase in the actual number of loans. During the 1940 to 1949 period the amount of insured loans increased from $10.1 million to $251.1 million, a rise of almost 2400%.